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LETTER DATED 15 MARCH 1999 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith, pursuant to paragraph 10 of Security Council resolution 1210 (1998), the report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait. The report was adopted by the Committee on 12 March 1999.

(Signed) A. Peter VAN WALSUM
Chairman
Security Council Committee established
by resolution 661 (1990) concerning the
situation between Iraq and Kuwait

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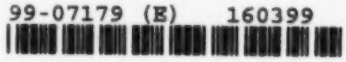

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Annex

Report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995)

I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraph 10 of resolution 1210 (1998), by which the Committee was requested, in close coordination with the Secretary-General, to report to the Council 90 days after the entry into force of paragraph 1 of that resolution on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). By paragraph 1 of resolution 1210 (1998), the Council decided that the provisions of resolution 986 (1995), except those contained in paragraphs 4, 11 and 12, would remain in force for a new period of 180 days beginning at 0001 hours, Eastern Standard Time, on 26 November 1998.

2. The Committee has to date submitted 10 reports to the Security Council on the oil-for-food programme: 8 reports (S/1997/213, S/1997/417, S/1997/692, S/1997/942, S/1998/187, S/1998/469, S/1998/813 and S/1998/1104) on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995) and 2 reports (S/1998/92 and S/1998/336) on the refining and clarifying of the Committee's working procedures in order to expedite the approval process for sending humanitarian supplies to Iraq.

II. SALE OF PETROLEUM AND PETROLEUM PRODUCTS

3. Since the beginning of phase V, the export of petroleum from Iraq has proceeded smoothly, with excellent cooperation among the oil overseers, the independent inspection agents (Saybolt), the Iraqi State Oil Marketing Organization and the national oil purchasers.

4. The overseers continue to advise the Committee on the pricing mechanisms, contract approval and modifications, management of the revenue objective and other pertinent questions related to export and monitoring, under Security Council resolutions 986 (1995), 1153 (1998), 1175 (1998) and 1210 (1998).

5. As of 23 February 1999, the Committee, upon the recommendation of the overseers, and the overseers, on behalf of the Committee, have reviewed and approved a total of 82 contracts, involving purchasers from 24 countries. One contract has been sent to the Committee for consideration with the recommendation of the overseers; six contracts are still pending owing to a lack of supporting documents. The total quantity of oil approved for export under those contracts corresponds to approximately 306 million barrels for phase V. All but one contract submitted employed pricing mechanisms approved by the Committee on the recommendation of the overseers.

6. One hundred twenty-nine liftings, totalling 165.1 million barrels valued at $1,404 million, have been completed (as of 23 February 1999). Letters of credit opened for each of the liftings were reviewed and confirmed by the overseers once the terms and conditions of the contracts approved had been complied with. About 45 per cent of the liftings were made at Ceyhan in Turkey. At the current low prices, the total revenue for the whole of phase V is estimated at $2.82 billion (including the pipeline fees). The distribution plan anticipated expenditures for humanitarian supplies and for oil spare parts and equipment of $2.746 billion, the financing of which would require gross oil revenues of about $4.342 billion.

7. The overseers and the independent inspection agents (Saybolt) deployed to monitor oil loadings and transfers continue to work closely to ensure the effective monitoring of the relevant oil installations as well as the liftings. For the third consecutive year, they have received the full cooperation of the Iraqi authorities.

8. Pursuant to paragraph 2 of the procedures of the Committee (S/1996/636), 327 national oil purchasers have been nominated from 51 countries who are authorized to communicate directly with the overseers.

9. Pursuant to paragraph 14 of the procedures of the Committee, the overseers have continued to report to it once a week on the contracts considered by them regarding the sale of petroleum originating in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. To date, 114 such reports have been submitted to the Committee.

III. EXPORT OF HUMANITARIAN SUPPLIES TO IRAQ

10. As in the previous four phases, the Committee, during the first 90-day period of phase V, continues to attach high priority to the work of processing contracts for supplying humanitarian goods to Iraq under the expanded programme. On 8 February 1999, the Committee further revised its procedure for calculating the validity period of approval letters under resolution 986 (1995) from the date the approval letters are actually issued to the applicant mission.

11. As of 23 February 1999, the Secretariat has received 274 applications under phase V for exports of humanitarian supplies to Iraq. Of the total, 3 were subsequently cancelled, 112 have been circulated to Committee members for action and 159 are still being processed. Of those sent to the Committee for consideration, 104 have been found eligible for payment from the United Nations Iraq Account, totalling approximately $464 million; and 8 are still pending under the "no-objection" procedure. Of the 104 applications which were found eligible for payment from the Iraq Account, 71 have been answered with letters of approval on the basis of availability of funds and the remaining 33 are waiting for sufficient funds to become available in the Iraq Account.

12. In the light of projections that phase IV revenues would be insufficient to fund all applications received by the Secretariat for phase V, at the request of the Government of Iraq, 132 phase IV applications valued at about $358,938,878 have been transferred to phase V as of 24 February 1999. Thirty-four of these

applications, valued at a total of $179,607,075 and all for foodstuffs, have been circulated to and approved by the Committee. Owing to projected phase V revenue shortfalls, circulation of those applications rolled over from phase IV to phase V in other than the food sector has been held in abeyance by the Secretariat pending a reply from the Government of Iraq to a request from the Office of the Iraq Programme for new phase V sectoral allocations. The applications not yet circulated under phase V include 98 applications transferred from phase IV with a total value of $179,331,803. In addition, 112 applications with a total value of $213,730,123 remain in phase IV and have been evaluated by the Secretariat but cannot be circulated owing to insufficient phase IV revenues.

13. The work of goods-arrival confirmation by the United Nations independent inspection agents (Lloyd's Register performed the task until the end of January and Cotecna took it over on 1 February 1999) went according to plan except for an interruption in mid-December 1998 during the military strike. As in previous phases, the Iraqi authorities have accorded the independent agents full cooperation in their work. During the first half of phase V, 2,514 consignments of humanitarian supplies from previous phases were confirmed as having arrived in Iraq in total or partial shipments.

14. The Committee held four formal meetings and six expert meetings during the reporting period to discuss various issues related to the oil-for-food programme.

15. Regarding financial issues, the modalities of the Hajj pilgrimage have been discussed in accordance with paragraph 3 of Security Council resolution 1210 (1998). The situation of the reimbursement of the 53 per cent account from the 13 per cent account for joint purchases of bulk food and medicines remains a particular concern of the Committee. As of 24 February 1999, the projection is that approximately $170,000,000 may be reimbursed to the 53 per cent account from the 13 per cent account subject to confirmed delivery of bulk foodstuffs and medicines to the three northern governorates. Recently, the Committee discussed a possible new arrangement, as presented by the Executive Director of the Office of the Iraq Programme on 11 February 1999, for advancing funds for food procured and delivered to northern Iraq, as required by paragraph 4 of Security Council resolution 1210 (1998). The arrangement is still under consideration.

IV. MATTERS RELATING TO OIL SPARE PARTS AND EQUIPMENT TO IRAQ

16. By paragraph 2 of resolution 1175 (1998), the Security Council requested the Committee, or a panel of experts appointed by the Committee, to approve contracts for the parts and equipment referred to in paragraph 1 of the resolution according to lists of parts and equipment approved by the Committee for each individual project. By paragraph 3 of the same resolution, the Council further decided that up to a total of $300 million from the escrow account might be used for that purpose. The above arrangement is reaffirmed by paragraph 8 of resolution 1210 (1998) and the Secretary-General submitted on 29 December 1998 a report (S/1998/1233, annex) with a detailed list of parts and

equipment necessary for the purpose described in paragraph 1 of resolution 1175 (1998).

17. The Committee has been making continuous efforts to expedite the approval process for contracts for sending oil spare parts and equipment to Iraq in accordance with existing procedures. In this connection, the Committee was briefed in January 1999 by Saybolt Nederland BV, the independent agents monitoring Iraq's oil export under resolution 986 (1995).

18. During the period of the present report, the Secretariat received 162 new applications, valued at $87,546,924, to ship oil spare parts and equipment to Iraq and circulated 204 applications, including those left from previous resolutions, to the members of the Committee for consideration. A total of 215 applications with a value of $105,996,077 were approved during this period, including 109 applications valued at $62,169,964 which were released from previous holds since the Committee's last report. At the same time, 78 contracts valued at $31,995,051 were placed on hold; 38 of them, valued at $19,818,792, were subsequently released from holds. By the end of this period, 40 applications, with a value of $12,176,259, remained on hold. From the beginning of the process through 23 February 1999, the number of applications received by the Committee to ship oil spare parts and equipment to Iraq under previous resolutions reached a total of 517 with a value of $275,984,077. Of those, 478 have been circulated to the members of the Committee for consideration; 6 are being reviewed by Committee experts awaiting amendments to the distribution plan; 26 have been returned to the applicant missions for clarification and 7 have been declared null and void. Of the 478 applications circulated, 367 have been approved, with a total value of $208,802,908; 86 valued at $24,276,108 have been placed on hold and 25 are pending under the "no-objection" procedure. Shipments of oil spare parts and equipment began arriving in Iraq in January 1999. As of 23 February 1999, 13 such shipments have arrived in Iraq in total or in part.

V. CONCLUSIONS

19. The Committee remains committed to working closely with the Office of the Iraq Programme for the effective implementation of all relevant arrangements under the oil-for-food programme. The Committee wishes to reiterate its appreciation to all parties concerned for their cooperation and contribution in this respect.